FinEx Webinar: Unpacking the Black Wealth Gap--Historical Lessons of Credit Discrimination in Understanding Your Customers

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2:00-3:30

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Five Principles of Effective Adult Education

Know	**Know the individuals and families to be served.**
Provide	Provide actionable, relevant, timely information.
Improve	Improve key financial skills.
Build	Build on motivation.
Decisions	Make it easy to make good decisions and follow-through.

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https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201706_cfpb_SUMMARY_five-principles-financial-well-being.pdf

Importance of Principle #1: Know the Individuals and Families to be Served

- It is well known that there have been policies of the financial services industry that have both caused and exacerbated racial inequality.
- This presentation is an effort to help financial practitioners understand the history of those practices, in an effort to help them better serve their audience.
- When financial practitioners are working with black and brown stakeholders it is important to understand their unique financial challenges based on factual, historical events and how those events have led many to experiencing the Black Wealth Gap that exists today.
- Financial education programs can be more effective if they are matched to an individual's specific challenges, goals, and circumstances rather than using a "one-size-fits-all" approach for all learners.
- Using the "know your stakeholders" approach (e.g., starting with a needs assessment and focusing on client-driven goals) can help financial educators tailor programs according to learner needs and develop realistic expectations about the potential impact of programs.

Unpacking the Black Wealth Gap: Historical Lessons from Credit Discrimination

CFPB FinEx Webinar | February 11, 2021

Wealth in the United States

- Wealth is the total extent of an individual's accumulated assets less any debt.
- Wealth has an enormous impact upon a variety of life opportunities, including:
  - Education,
  - Housing,
  - Employment,
  - Social capital, and
  - Intergenerational transfers.
- Wealth is the single best indicator of racial inequality.

Racial Wealth Inequality

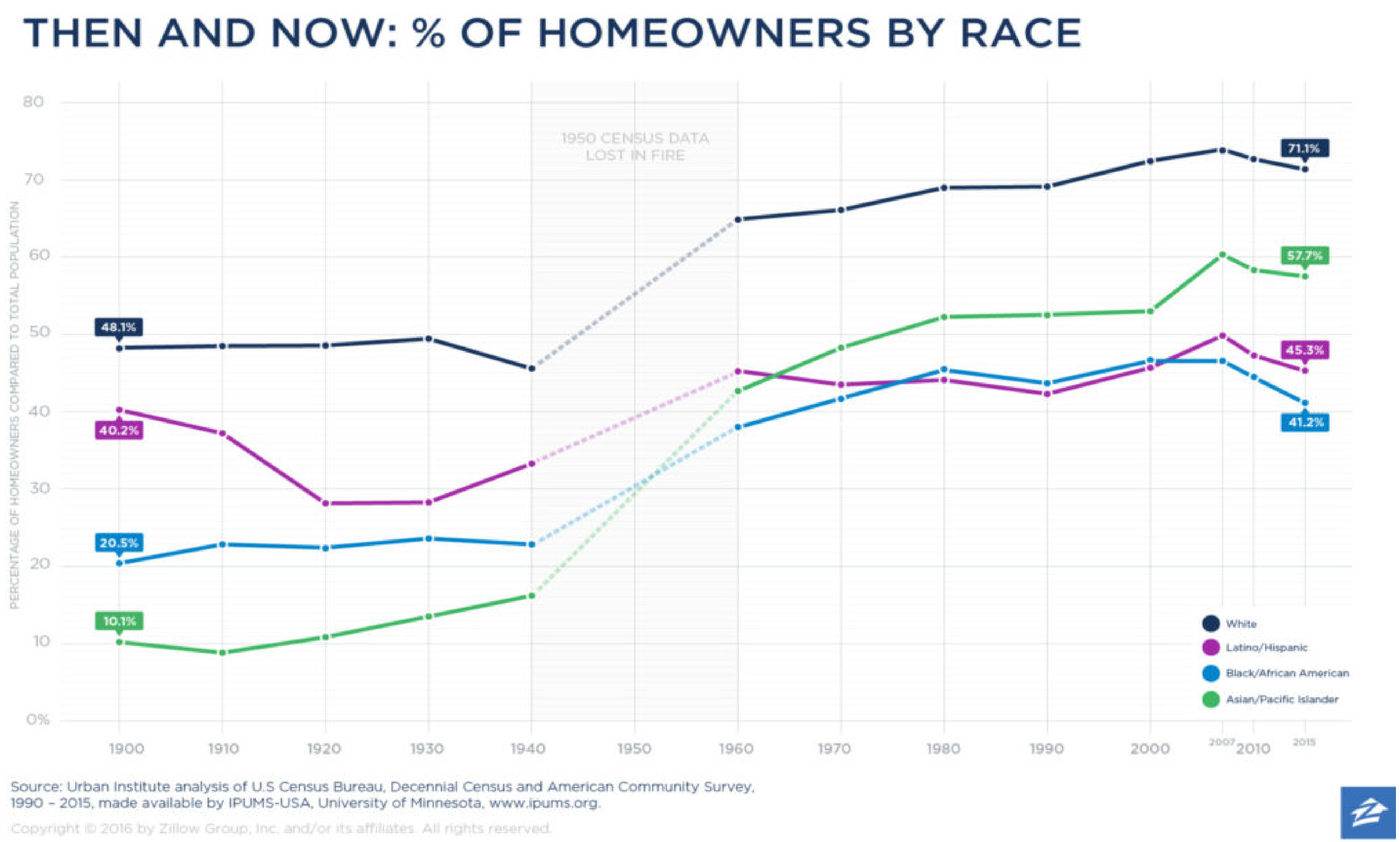
- The Federal Reserve recently released updated racial wealth data from 2019 Survey of Consumer Finance[1]:
  - African-American households had a median net worth of $24,100 and a mean net worth of $142,500.
  - White households had a median net worth of $188,200 and a mean net worth of $983,400.

[1]https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

Racial Homeownership and Wealth

- In the United States, the single most important means of accumulating wealth for most families is homeownership.
- In Q2 2019, the homeownership rate gap between African Americans and whites peaked at 32.5% and, it currently stands at 29.7%.
- The racial homeownership gap has consistently exceeded 25 percent throughout the 20th century.

Racial Homeownership Rates



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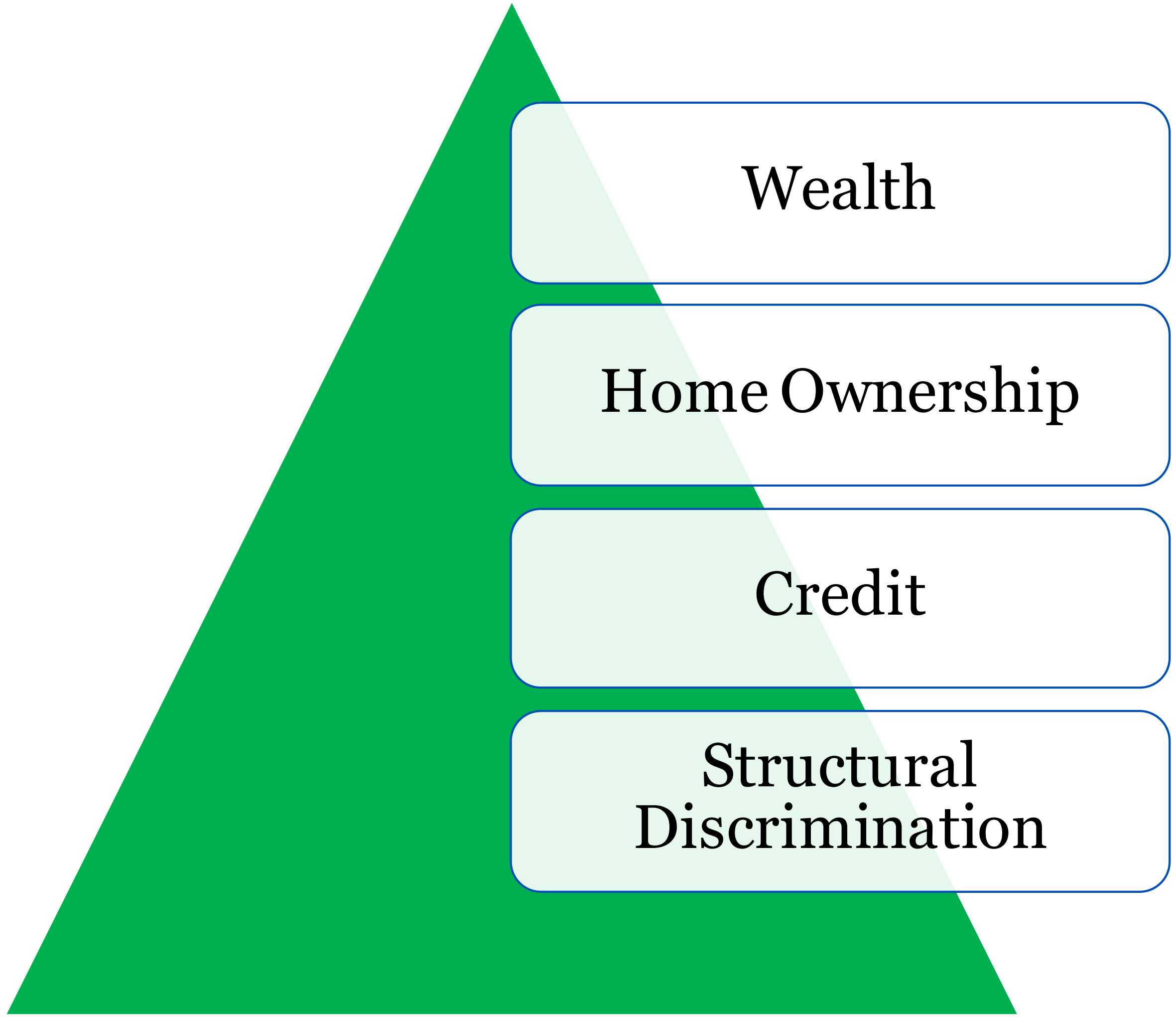
A Key Component

- One explanation for the racial wealth gap is the racial homeownership gap.
- Few people have the financial resources to purchase a home without resorting to financing.
- A key component to achieving homeownership is access to fair and equitable credit.

Where Does That Take Us?



Historical Perspective Of Racial Credit Discrimination and Predatory Lending

1) In understanding racial wealth inequality, it is important to understand the historical context of the discriminatory and structural barriers that impede Black wealth accumulation.

2) There are three distinct generations of racial credit discrimination and predatory lending:

- Post-Emancipation Era
- Great Migration Era
- Subprime Crisis Era

African Americans and Wealth Accumulation from Slavery to Emancipation

- On the eve of the Civil War, the African-American population in the United States was 4.5 million with approximately 90% held in slavery in the South.
- During the 246 years of slavery in America, enslaved individuals could not legally own land, assets, or otherwise accumulate wealth.
- When the Emancipation Proclamation was signed in 1863, African Americans owned 0.5 percent of the total wealth in the United States.
- The wealth of the average Northerner in 1860 was $546.24; of the average free Southerner, $1,042.74. The average free person in the future Confederate States was worth $1,255.45; in the seven states of the Lower South, $1,508.61.
- Following the Emancipation Proclamation and the passage of the 13th Amendment, the newly freed persons immediately identified land ownership as an essential element in defining their freedom.
- Despite initial land redistribution efforts, by1867, it was clear that the federal government was not going to provide African Americans any type of restitution for their years of involuntary servitude.

The Rise of Sharecropping

- With the demise of slavery and the failure of land reform, land ownership and African-American wealth accumulation occurred in the context of a new system of labor known as sharecropping.
- Under sharecropping, most plantations were subdivided into individual farms ranging from 10-30 acres.
- The individual plots of land were worked by African Americans in return for a portion of the crop.

Agricultural Ladder

1. Top rung – Cash or Fixed Tenants
   - Such farmers rented land from the owner and paid a fixed sum of cash or its equivalent in crop values
   - Typically, cash tenants owned their own farm equipment and animals and maintained ownership of the crop.
2. Middle rung – Share Tenants
   - Such farmers also rented the land from the owner and paid for it with a share of the raised crop ranging from 1/3 to 1/4.
   - Typically, tenant farmers owned their own farm equipment and animals and maintained ownership of the crop.
3. Bottom rung – Sharecroppers
   - Such farmers worked a piece of land and were paid by the owner with a share of the raised crop, usually one half.
   - Typically, sharecroppers did not own any farm equipment or animals and did not have legal title to the crop.

Renters versus Croppers

A farmer's position on the agricultural ladder was directly correlated to their wealth accumulation.

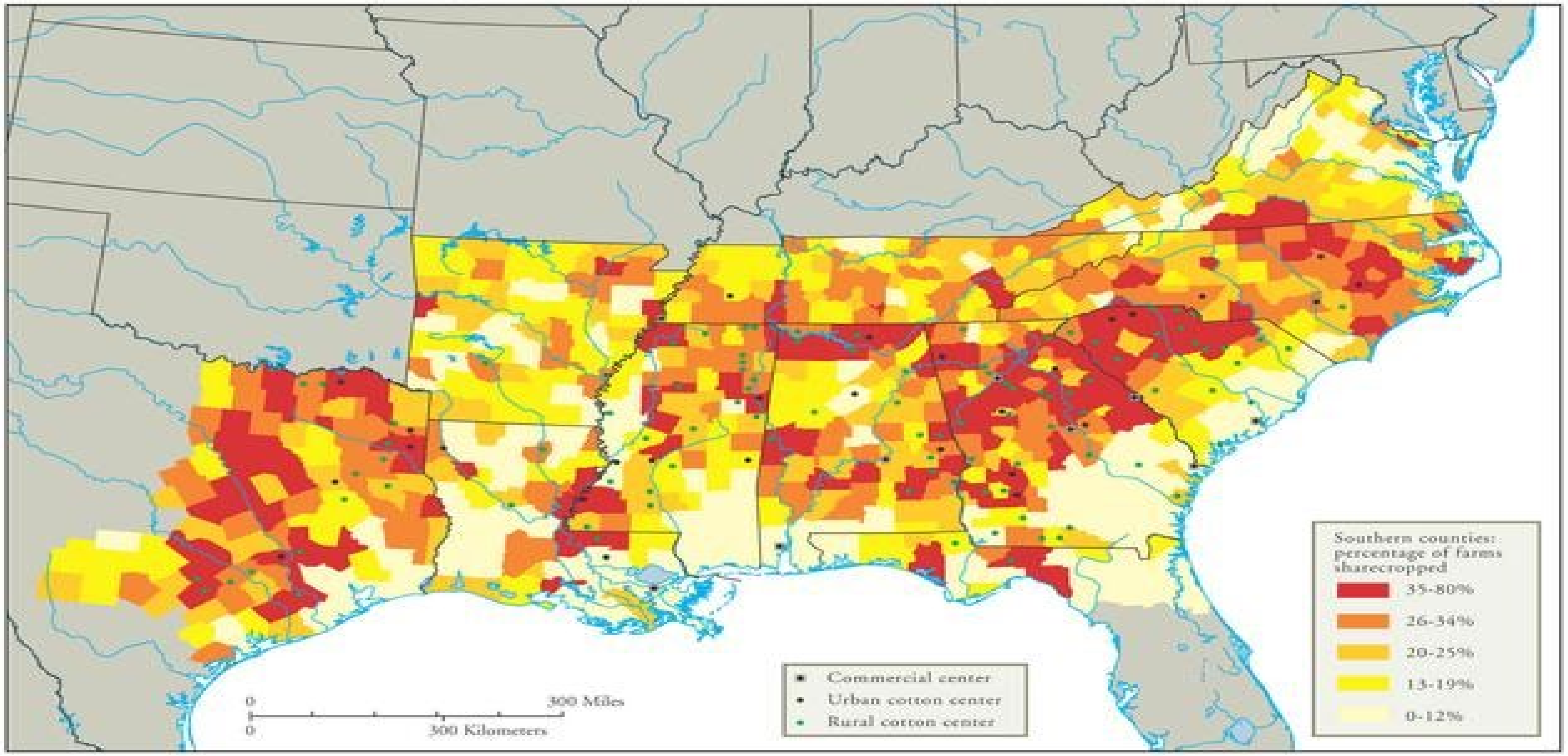
- Assets=Renters
- No Assets=Sharecroppers

Since African Americans had few assets in the wake of Emancipation, the majority were relegated to the status of sharecroppers on the bottom rung of the agricultural ladder.

"You see, a sharecropper don't ever have nothing. Before you know it, the man done took it all. But a renter always have something, and then he go to work when he want to go to work."

-Bessie Jones

The South and Sharecropping



Typical Sharecropper House

Typical Sharecropper Homes

The Credit System In The South

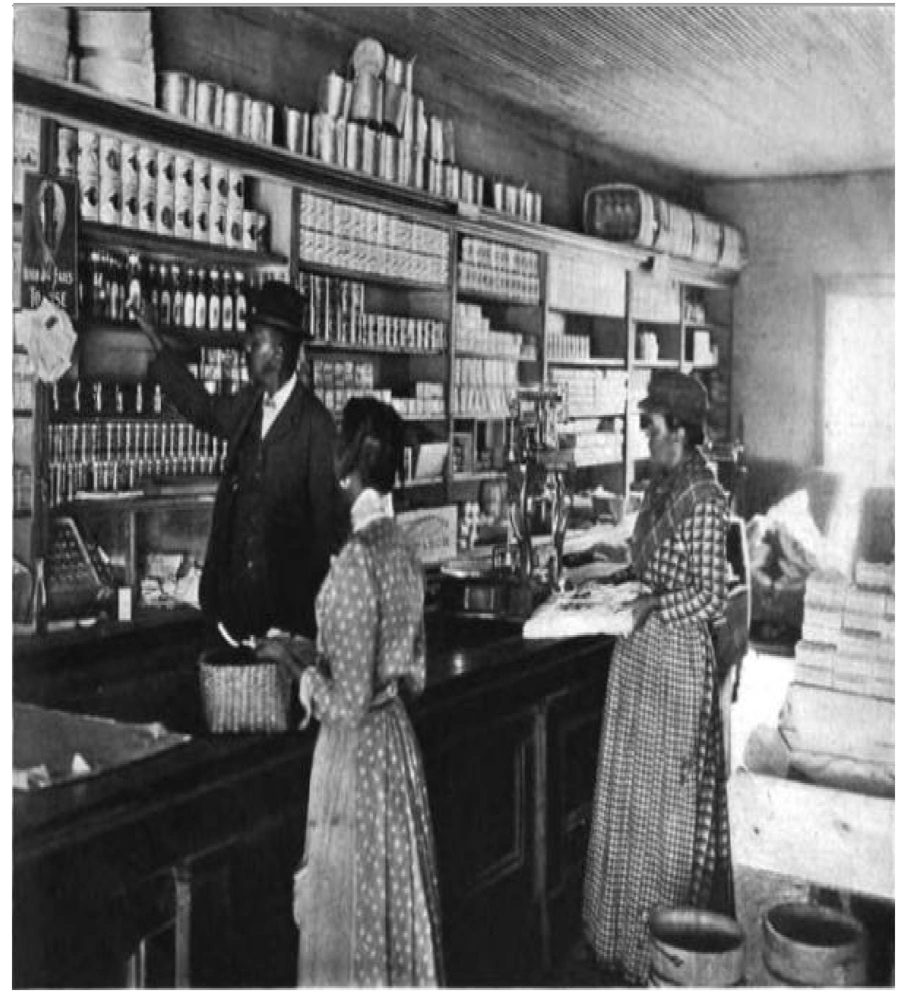
- The sharecropping relationship also resulted in the creation of a credit relationship.
- A sharecropper planted his or her crop, usually cotton, in early spring and did not harvest and sell the crop until November or December.
- With few assets to rely upon during the cotton season, sharecroppers invariably required some sort of short-term credit to sustain themselves and their families.
- With financial institutions unwilling or unable to provide short term credit, the merchant rapidly filled the vacuum.

The Merchant and Credit

- The merchant ran a general store that sold a wide variety of goods ranging from basic food and clothing to luxury items.
- With few people able to pay with cash, the merchant almost exclusively operated through credit transactions.
- The key to the merchant's power was not in the sale of goods but rather his control over credit.

The Merchant and African Americans

- Lacking assets to commence small-scale farming, African Americans were "furnished" by the merchant with basic food necessities, farming equipment, and the supplies necessary to plant a crop.
- Without cash, the merchant advanced such necessities to African Americans on a fixed credit limit and secured by a lien on the crop.



Predatory Lending and the Merchant

- The merchant was able to use his control over credit in a predatory manner in two respects.
- First, the merchant maintained a two-tiered pricing system with a price for goods purchased on cash and a second price for goods purchased on credit.
- One study determined that the average price for goods purchased on credit was 55.3% higher than the cash price with ranges from a high of 89.6% to a low of 33.6%.

Predatory Lending and the Merchant

- Second, the merchant established an interest rate for the goods purchased on credit.
- Typically, an interest rate charge of 8 to 15 percent was added to the credit price.
- The two-fold combination resulted in a total effective interest rate ranging from 30% to 70%.
- One study of merchants in Georgia between 1881-1889 revealed total interest rates ranging from 44.2 % to 74.6%
- At the same time in the City of New York, short-term interest rates ranged from 4-6% and never exceeded more than 8%.

"Settlin Time"

- The sharecropper generally harvested the crops in the fall with the accounts settled during the months of October-December.
- Since the merchant had legal title to the crop due to a crop lien, the sharecropper was required to turn the crop over to the merchant who proceeded to sell it.

“The Moment of Truth”

- At settlement time, the merchant informed the sharecropper of the amount that the crop sold for on the open market.
- Next, the merchant proceeded to add the total of the advances based upon the purchases made during the year and entered an interest charge against the total sales amount.
- The total of the advances plus interest was then deducted from the sales proceeds to determine whether there was a profit or loss for the year.

Cheating at Settlement Time

- African-American sharecroppers were not given any sales receipts or itemized statements and were routinely cheated at settlement.
- One Freedman Bureau official recalled that white "men who are honorable in their dealings with their white neighbors will cheat a Negro without feeling a single twinge of their honor."
- One study of African Americans in rural South Carolina found that 101 out of 118 stated that they were "cheated badly by their white 'bosses'."

"I have been living in this Delta thirty years; but there is no use jumping out of the frying pan into the fire. If we ask any questions we are cussed, and if we raise up we are shot, and that ends it."

Mississippi sharecropper

Anthony P. Crawford

- Crawford was a prosperous farmer who owned 427 acres of land in Abbeville, South Carolina and was a pivotal figure in the local African-American community.
- On October 21, 1916, Crawford came to town to sell his cotton and quarreled with a white merchant over the price. As a result of this quarrel, Crawford was jailed.
- A mob of 200 people removed Crawford from the local jail, beat him, dragged him through the Black neighborhood with a rope around his neck, hung him from a pine tree, and shot him over 200 times.
- A statement published in the local paper explained that Crawford's death was "inevitable and RACIALLY JUSTIFIED" and due to "his own reckless course, due to chest inflation from wealth"

African Americans and Debt Peonage

- Due to the high interest rate charges and cheating at settlement time, the sales price of the crop was often less than the merchant advances submerging African Americans into debt each year.
- One study of African-American sharecroppers in Macon County, Alabama in 1932 demonstrated that 61.7% broke even, 26.0% went into debt, and 9.4% made a profit.

*"After de last bale was sold…him come home wid de same sick smile and de same sad tale: 'Well, Mandy, as usual, I settled up and it was "Naught is naught and figger is figger, all for de white man and none for the n*****."*

Manda Walker

Landownership and African Americans

- Despite such obstacles, African Americans were able to accomplish landownership in surprising large numbers in the South.
- By 1910 throughout the South, African American’s land ownership in rural areas was 24% and in urban areas 21%.
- Mean value of an African-American farm, including livestock, was $1,588.
  1. Farms were usually small – fewer than 50 acres and clustered together.
  2. Land was generally of poor quality.

African Americans Path to Landownership

While not uniform, the purchase of land often required several central elements:

1. Income household production;
2. Asset building blocks;
   - Livestock
   - Personal property
3. A White sponsor; and
4. Purchaser Literate.

"[We] watched and scuffled for four years first one way then another – makin baskets, cuttin stove wood for people- until I could buy me a mule so I could rent a little land and go to work and run my own affairs."

-Ned Cobb

White Land Ownership

- Nevertheless, African-American ownership rates paled in comparison to white rates. For example, the overall rate of farm ownership in the South for whites in 1910 was 60% and the overall rate of white homeownership rate was 48.1% in 1900.
- Mean value of a white farm, including livestock, was $3,911.
- Whites benefited from laws that provided free or cheap land to settlers.
    - Headrights
    - Land Grants
    - Homestead Acts

Debt Peonage in the South

- Beginning in 1619 through the Civil War, the vast majority of African Americans (90%) were legally and practically precluded from property ownership and wealth accumulation.
- From the end of Civil War to the beginning of the 20th century, the majority of African Americans were trapped in a system of debt peonage, driven by predatory credit discrimination, in an agricultural system based on a cotton production that severely constrained their ability to accumulate wealth.

African-American Sharecroppers

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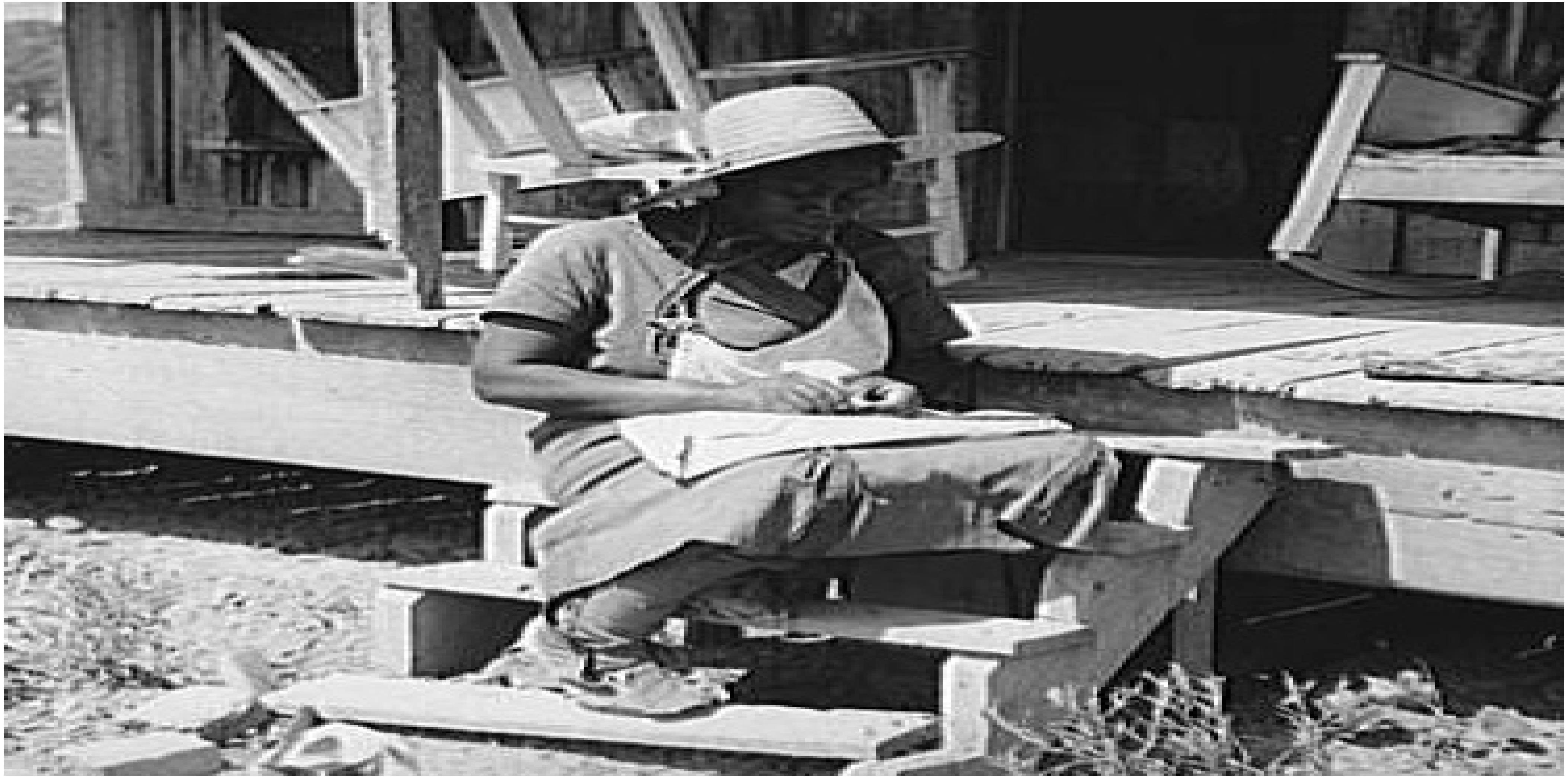
African-American Sharecroppers



African-American Sharecroppers

The Great Migration

Intent on escaping the violence and discrimination of the South, between 1910 and 1970, millions of African Americans left the rural South for the urban cities of the North, Midwest, and West seeking economic and educational opportunities.

- The Great Migration 1910-1940
  - 1.6 million arrived primarily in the cities of the Northeast.
  - For example, in thirty years, the number of African Americans in the New York City area increased from around 140,000 to over 650,000.
- The Second Great Migration 1940-1970
  - 1940-1970 – 3.5 million arrived in the cities of the Northeast, Midwest and West.
  - For example, in thirty years, the African American populations of Los Angeles (76,200 to 765,800) and San Francisco area (21,600 to 331,700) grew ten times.
- It was the largest internal movement of any group in American history.

African-American Migration Patterns

AFRICAN AMERICAN MIGRATION NORTHWARD, 1910–1920

Mortgage Finance System

- Among the pieces of "cultural baggage" African American migrants brought North was the desire for homeownership.
- In the early 20th century, mortgages typically required a large down payment, usually one-half of the purchase price, with the remainder financed with a "straight" mortgage:
  - 2-6% interest rate with fees ranging from 3-6% of the loan.
  - 5-year term with interest-only and balloon payments.
- Borrowers often took out second mortgages to cover the large down payment amount:
  - 4-12% the interest rate with fees as high as 20% of the loan
  - 1–3 year term with additional fees upon renewal.
- Borrowers even used small third mortgages to cover mortgage fees and the first payment.

African Americans and Mortgages

While the home financing system was a challenge to all consumers, African Americans faced additional barriers.

- Banks simply refused to lend African Americans.
- Even if a bank did make a mortgage loan to African Americans, the terms and conditions were onerous compared to whites.
- Typically, African-American borrowers were charged interest rates and fees at least double those offered to whites.

"[I]f a colored man owned City Hall he would be unable to get a first mortgage on it at this bank. They absolutely refuse to lend money, in any manner to Negroes"

-Raymond Pace Alexander, African-American lawyer, Philadelphia, PA

Installment Contracts

- Without access to traditional mortgage credit, African Americans often relied upon an installment or land contract to finance a home.
- Under such a contract, the owner sold the property to a buyer at a mutually agreed upon price and the purchase was financed through a series of monthly installment payments directly to the original owner.
- Such a financing arrangement, however, was subject to discriminatory and predatory practices.

Predatory Installment Contracts

- First, the buyer did not acquire title to the property until the installment payments were complete.
- Second, the buyer did not gain any equity in the property during the contract.
- Third, if the buyer missed one payment, the seller could cancel the contract and take back the property with a simple and inexpensive eviction as opposed to a foreclosure.
- Fourth, usury laws and mortgage interest rate ceilings did not apply to such contracts.
- Fifth, the buyer could be kept ignorant of the actual value of the property since an appraisal was not necessary to the transaction.
- Sixth, the buyer was responsible for all maintenance, insurance, repairs, and expenses of the property.

Ossian and Gladys Sweet Purchase a Home in Detroit

- In 1925, Mr. Sweet, an African American doctor, and his wife purchased a home in a white neighborhood in Detroit.
- The Sweets' paid $18,500 to the white sellers when the standard sales price in the neighborhood was $12,000 to $13,000.
- The Sweets' made a down payment of 20% of the purchase price with the remainder financed with an installment contract.
- The Sweets' contract required them to pay 120 monthly installments of $150.00 for an effective interest rate of 18%.

Golden Age of Black Banking

- The surge in African-American migration led to an increase in racial violence and housing segregation which, in turn, created a separate African-American economy that presented an opportunity for economic and civil rights activism.
- From 1900 through 1934, 130 African American-owned banks were established.
- By 1930, 73 African American-owned building and loan associations were in operation.
  - Indigenous financial institutions provided mortgages with reasonable terms and conditions to African Americans.
    - For example, in Philadelphia from 1910-1929, 19 building and loan associations originated at least 1,216 mortgage loans to African Americans.
- However, African American-owned financial institutions faced capital and liquidity limitations, market constraints, and asset depreciation.

Major Richard R. Wright, Sr. and Citizens Bank

- Richard Wright was born an enslaved person in a log cabin in Dalton, Georgia in 1855.
- He graduated from Atlanta University and became president of the Georgia State Industrial College for Colored Youth, known now as Savanah State University.
- After Wright's daughter was insulted in a local bank while attempting to make a deposit, he demanded an apology from the bank's president.
- The bank president refused to apologize, and Wright vowed to start his own bank.

Major Richard R. Wright, Sr. and Citizens Bank

- At the age of sixty-six, Wright left the South and, on September 15, 1920, he and his family opened the Citizens and Southern Bank in Philadelphia, Pennsylvania.
- To counter discrimination and fraud in the mortgage market, on March 1, 1926, Wright expanded his bank to include a trust company to provide a full-range of financial services to African-American home buyers.
- Wright's goal was to promote savings in order to achieve homeownership and protect African Americans from "real estate sharks."
- By 1930, Citizens had $161,000 in capital, over 6,000 deposit accounts, 1,300 checking accounts and provided 1,000 loans.
- Wright also established and was the first president of the National Negro Bankers' Association.

Federal Government and Homeownership

- On October 29, 1929, the stock market collapsed triggering the Great Depression.
- Between 1929 and 1933, over 5,000 banks closed, $7 billion in depositor funds vanished, and housing construction fell by 95%.
- By 1933, one-half of all mortgages were in default with over 1,000 foreclosures per day.
- In response to the crisis, the federal government revolutionized housing finance to rescue the market and to make homeownership more accessible.
- Unfortunately, the system the federal government introduced to support homeownership placed discriminatory barriers in the path of African Americans.

Home Owners' Loan Corporation

- In 1933, the Home Owners' Loan Corporation (HOLC) was established to assist families in danger of foreclosure by refinancing their existing delinquent mortgages.
- Between 1933 and 1935, the HOLC supplied over three billion dollars for over one million mortgages.
  - 40% of all qualified mortgagees sought assistance.
  - 15-year term, fully amortized at an interest rate of 5%.
- Since the HOLC was dealing with mortgages in default and potential foreclosure, it introduced standardized appraisals of properties and communities in order to access possible risk.

HOLC City Survey Program

- The HOLC commenced a City Survey Program to appraise the level of real estate risk in 239 cities in the United States.
- HOLC distributed questionnaire forms to local real estate professionals and mortgage lenders to measure risk.
- In the process of rating neighborhoods, the risk assessments incorporated existing "notions of ethnic and racial worth."
- No socioeconomic characteristic was deemed more important by the HOLC, for appraisal purposes, than race.
  - For example, the HOLC monitored the movement of African Americans and charted the density of African American neighborhoods.

HOLC City Survey Form – Dayton, Ohio

NS FORM-8
6-22-37

AREA DESCRIPTION

1. NAME OF CITY Dayton SECURITY GRADE D AREA NO. 11
2. DESCRIPTION OF TERRAIN. Level
3. FAVORABLE INFLUENCES. Good schools and transportation
4. DETRIMENTAL INFLUENCES. Mixture negro and poor white.
5. INHABITANTS:
   a. Type Laborers; b. Estimated annual family income $ 700
   c. Foreign-born None (Nationality); __ %; d. Negro Yes (Yes or No); 80 %;
   e. Infiltration of Negro; f. Relief families 30%;
   g. Population is ~~increasing~~; ~~decreasing~~; static.
6. BUILDINGS:
   a. Type or types 1 & 2 family detached b. Type of construction Frame;
   c. Average age 40 years; d. Repair Poor
7. HISTORY:

	SALE VALUES			RENTAL VALUES		
YEAR	RANGE	PREDOMINATING	%	RANGE	PREDOMINATING	%
1929 level		$2000	100%		$15	100%
1933 low		400	20		9	60
1937 current		900	45		12	80

Peak sale values occurred in 1929 and were ___ % of the 1929 level.
Peak rental values occurred in 1929 and were ___ % of the 1929 level.

8. OCCUPANCY: a. Land 98 %; b. Dwelling units 98 %; c. Home owners 50 %
9. SALES DEMAND: a. None; b. ___; c. Activity is ___
10. RENTAL DEMAND: a. Fair; b. Anything available $13.; c. Activity is Fair
11. NEW CONSTRUCTION: a. Types None; b. Amount last year ___
12. AVAILABILITY OF MORTGAGE FUNDS: a. Home purchase None; b. Home building ___
13. TREND OF DESIRABILITY NEXT 10-15 YEARS Downward
14. CLARIFYING REMARKS: Low Red.
15. Information for this form was obtained from E. C. Devlin, Jr., Field Agent, J. Lemon, Jr. Field Agent, C. A. Fleming - Loan Service Representative.

Date March 10, 1937 193_

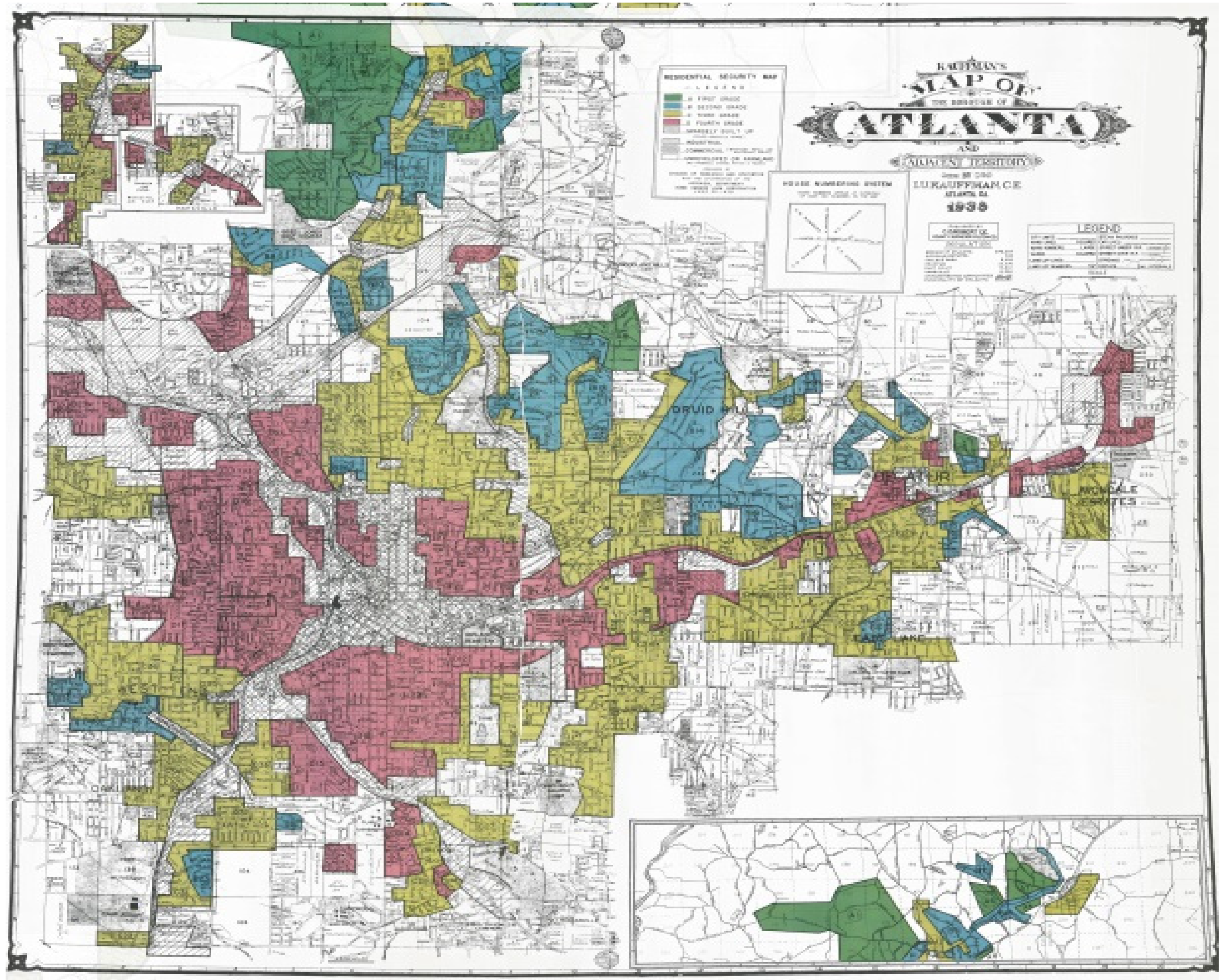
HOLC Risk Assessment

- Based upon the Survey Program, the HOLC developed four color-coded categories of risk.
  - A – Coded Green representing the “best” areas that were “new homogenous, and in demand as residential locations in good times and bad.”
  - B – Coded Blue representing areas that had reached their peak but were “still desirable.”
  - C – Coded Yellow representing areas that were “definitely declining.”
  - D – Coded Red representing “hazardous” areas in “which the things taking place in C areas have already happened…characterized by detrimental influences of a pronounced degree, undesirable populations or an infiltration of it.”

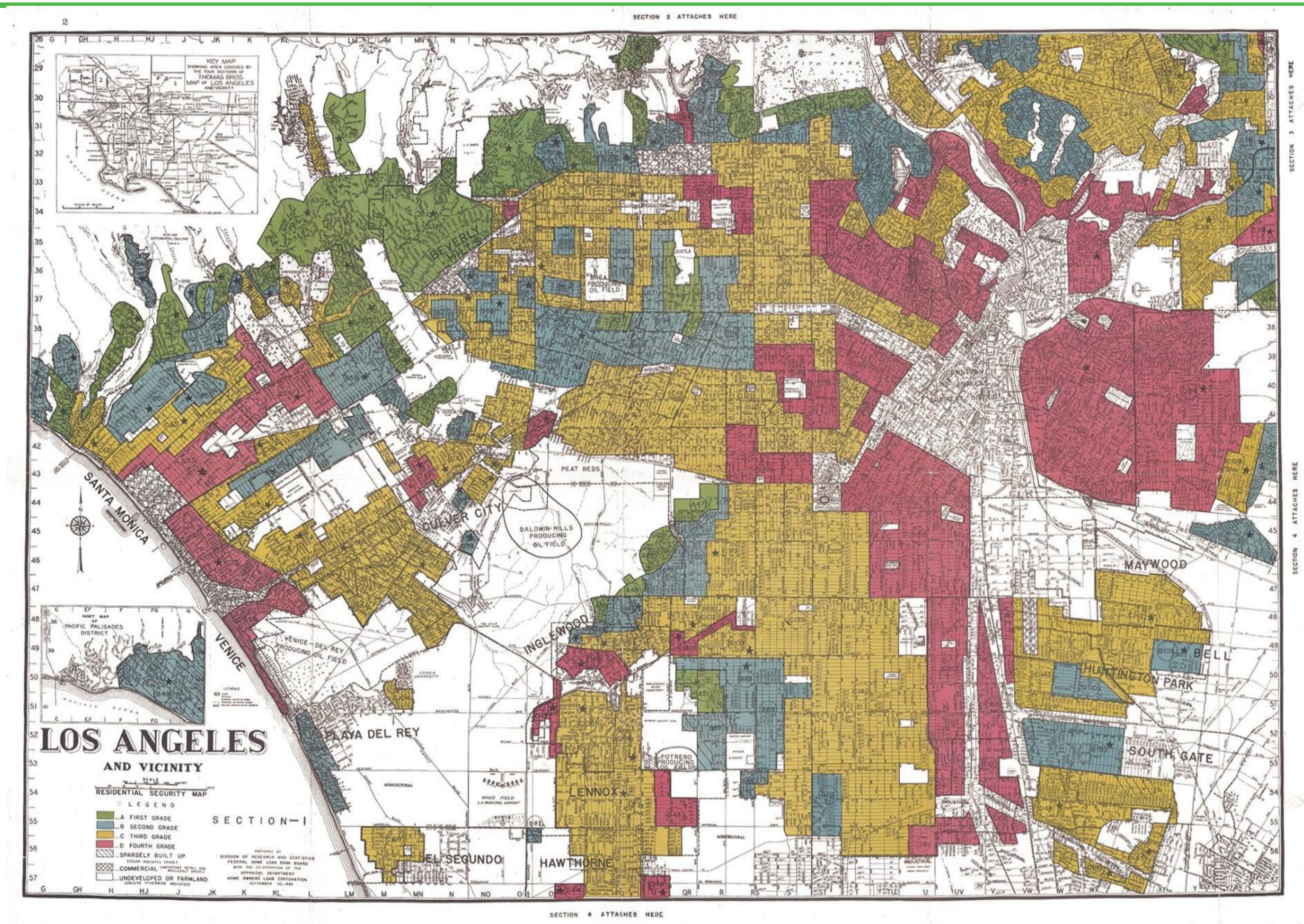
HOLC and Redlining

- African-American neighborhoods were almost always rated fourth by the HOLC and "redlined."
- For example, in Detroit, every neighborhood with any degree of African American population was rated "D" or "hazardous" by federal appraisers.
- Following completion of the rating system, HOLC prepared color-coded residential security maps that detailed the various real estate risk grades.

HOLC City Survey Map – Atlanta



HOLC City Survey Map – Los Angeles



Impact of the HOLC

- While the HOLC had a mixed record of mortgage lending in neighborhoods coded C-yellow and D-red, African Americans were still subject to discriminatory practices.
  - D-rated areas were charged higher interest rates.
  - Reinforced segregation by refusing to sell and make loans to African Americans for properties in white areas.
  - Under-appraised the value of African American areas.
- The major damage the HOLC caused was adopting, elaborating, and implicitly placing the federal government's seal of approval upon notions of real estate value and race.
- The rating system developed by HOLC was adopted by private financial institutions, thereby institutionalizing the practice of racial redlining.

Federal Housing Administration

- The FHA was established in 1937 to facilitate sound home financing on reasonable terms and conditions.
- While the FHA did not directly lend money to borrowers, it provided financial incentives to private lenders by insuring up to 90% percent on any loss incurred with an FHA-approved mortgage.
- With risk greatly reduced to the lender, the FHA's success was remarkable as housing starts exploded from 332,000 in 1936 to 619,000 in 1941.
- By the end of 1972, the FHA had assisted 11 million families in achieving homeownership.
- This remarkable success came at a price, as it largely provided FHA-financing in whites areas in the suburbs to the detriment of African Americans residing in urban areas.

The FHA and Redlining

- The FHA required an “unbiased professional estimate” as a prerequisite to any loan guarantee in order to ensure that the value of the property would exceed the outstanding mortgage debt.
- Acting on the HOLC’s rating system, the FHA developed even more elaborate advice on race and real estate value for its appraisers in its Underwriting Manual.

The FHA's Underwriting Manual

Part II
233–235

UNDERWRITING MANUAL

social groups are present, to the end that an intelligent prediction may be made regarding the possibility or probability of the location being invaded by such groups. If a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally leads to instability and a reduction in values. The pro-

- The Manual warned of the dangers of "infiltration of inharmonious racial groups and nationality groups."
- To prevent such "infiltration", the Manual recommended "subdivisions regulations and suitable restrictive covenants as an excellent method to maintain neighborhood stability."
- In short, the entire FHA appraisal process was based upon the premise that racial segregation was necessary to ensure property values.

The FHA and Private Financial Institutions

- One of the most significant aspects of the FHA was that it actions were adopted by private financial institutions that institutionalized the discriminatory appraisal process and the practice of redlining.
- In Chicago, a survey of 241 savings and loan institutions found that 19 were willing to make loans to African Americans purchasing homes in African-American areas and 1 was willing to grant a mortgage to African Americans moving to a white neighborhood.

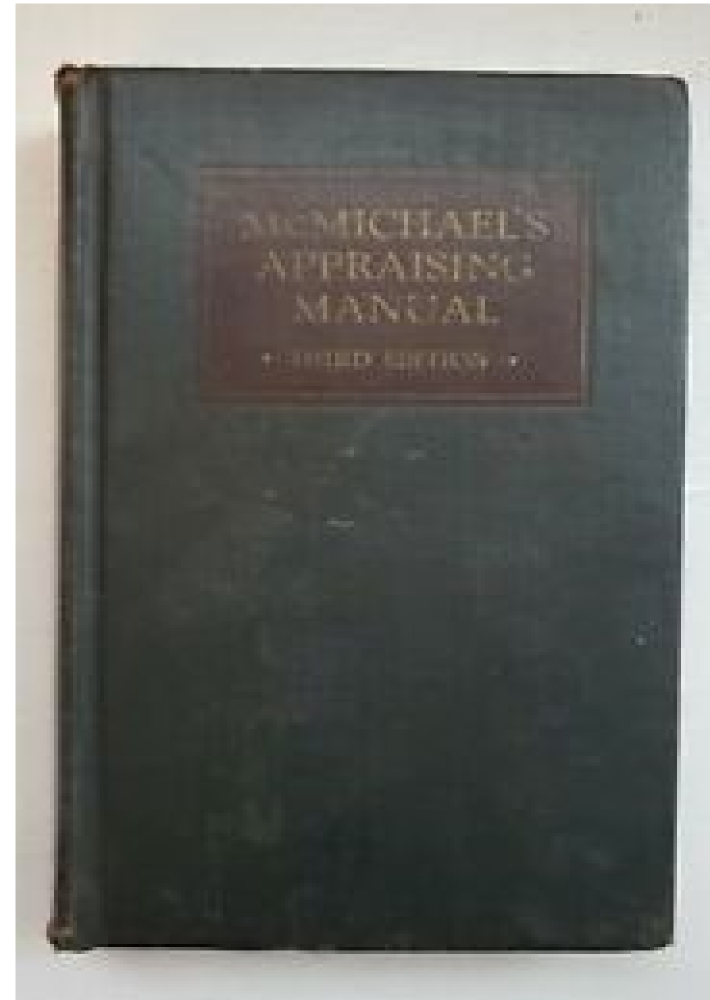
"Today, however, a very decided bias exists on the part of mortgage lending agencies…Upon learning the racial identity of the applicant or on finding that the property is occupied by colored people the loan is often immediately rejected without further investigation."

-I. Maximillian Martin, African-American real estate expert

The FHA and Private Financial Institutions

As late as 1951, the McMichael's Appraising Manual, the "bible" of appraising, included the following ranking of ethnic groups in order of most desirable to those with the most adverse impact on property values:

- (1) English, Germans, Scotch, Irish, Scandinavians
- (2) North Italians
- (3) Bohemians or Czechs
- (4) Poles
- (5) Lithuanians
- (6) Greeks
- (7) Russians, Jews (lower class)
- (8) South Italians
- (9) Negroes
- (10) Mexicans.



Detroit and The Impact of the FHA

- In Detroit, a developer proposed an all-white subdivision next to a black neighborhood in the Eight Mile-Wyoming area of the city which a HOLC appraiser had rated as "D" or "hazardous".
- The FHA denied the developer financing due to its close proximity to the "hazardous" black neighborhood.
- As a compromise, the FHA agreed to provide mortgage loan guarantees for the proposed development provided the developer build a foot-thick, six-foot-high wall for a half mile to separate the black and white neighborhoods.

The Impact of the FHA

- While exact figures are not available, an analysis of the data on a county basis reveals a clear pattern of redlining in center city areas and abundant loan activity in suburban counties.
- For example, between 1946 and 1960 over 350,000 homes were constructed with FHA-insured financing in Northern California of which less than 100 were for African Americans.
- For example, a statistical analysis of mortgage lending in Philadelphia from 1940 to 1960 concluded that FHA policies “virtually guaranteed that few homeowners in these areas [older homes and concentration of African Americans] were the beneficiary of FHA insurance.”
- Overall, during the time period from 1930 to 1960, scholars have demonstrated that ”fewer than one percent of all mortgages in the nation were issued to African Americans.”

Installment Contracts Revisited

- Without access to traditional mortgage credit, African Americans were targeted by real estate speculators for installment contracts.
  - African-American newspapers were filled with property advertisements that listed low down payments but no total sales price – a clear indicator that the property was being sold on contract.
- Secondary market for installment contract paper provided liquidity to the market.
- Speculators and investors often recouped their entire equity investment within just two years.

Installment Contracts Revisited

- In Chicago, an expert estimated that 85% of the properties sold to African Americans in neighborhoods undergoing racial change were financed with installment contract.
- Likewise, a 1962 study of an African American neighborhood in Chicago found that of the 29 properties that changed ownership, 24 (83%) were financed with installment contracts.
- The study also found that the properties were sold to African Americans, on average, at a price that was 73% greater than the original price paid by investor.

Johnnie and Maryhue James

- In August 1955, the Jameses' purchased a home on contract in Chicago for $13,500 from Charles Peters, a real estate speculator.
- Peters told the Jameses' that the home was owned by a white couple, but he had purchased the home 13 days earlier for $8,000.
- The James' contract required a down payment of $1,000, monthly payments of $105, and the balance of $10,500 due at the end of the term.
- Peters promised to help the James' secure a mortgage at the end of the term given they might have troubles "because [they were] colored."
- After one year, Peters sold the contract at a discount to Arthur Krooth, a liquor store owner.
- Nearly the end of the contract, the James' sought Peters promised assistance. He told them since he no longer had an ownership interest, he could care less what happened to them.
- The Peters' attempted to secure a mortgage but their application was denied by six banks since the property was not worth $10,500.
- Krooth began eviction proceedings and the court rejected the James' efforts to delay the eviction in order to continue their efforts to secure a mortgage.

Urban Sharecropping System

- Large national retail stores typically operated in suburban areas and avoided African-American neighborhoods in the North.
- Suburban retailers could lower costs due to their access to an economically diverse set of customers and higher sales volume.
- In the absence of traditional retailers, African Americans relied upon small merchants operating stores in segregated neighborhoods to purchase consumer products such as appliances and furniture.
- Retailers courted customers through advertising, promises of easy credit, and door-to-door salesmanship.
- Most of the purchases were financed at the same store that sold the goods.
  - An FTC study found that 92% of the sales in such stores were credit sales compared to 27% of general retail stores.

Urban Sharecropping System

- Most consumer lending in African American neighborhoods took the form of installment loans.
- The interest rates were usually high, and retailers often charged more than the legal limit by simply elevating the base price of the goods.
- Paul Dixon, Chairman of the FTC, testified that an item selling wholesale at $100 would retail for $165 in a general merchandise store and for $250 in a local store, a 52% price premium.
- Such consumers were a "captive market" given there was little to no price competition among these retailers.
- Borrowers often fell into a continuous debt relationship with these merchants.

Urban Sharecropping System

- Local merchants operating in African-American neighborhoods often used a wide-range of exploitative practices:
  - High-pressure sales tactics;
  - Misleading and bait-and-switch advertisements;
  - Misrepresentation of prices;
  - Shoddy merchandise;
  - Substitution of used goods for promised new ones;
  - Refusal to repair or replace substandard products; and
  - Fraud.
- Contract defaults often entailed repossession, wage garnishments, court judgments, and even shakedowns by merchants.

Racial Wealth Gap - 1967

- The Federal Reserve studied the racial wealth gap in 1967 and concluded that "the evidence appears overwhelming that the net wealth position of black families is substantially poorer than that of white families of similar characteristics."
- For whites and African Americans earning more than $20,000 a year in 1967, whites had a net wealth of $100,009 and African Americans had $30,195. At the bottom, for incomes less than $2,499 a year, whites had $10,681 and African Americans $2,148.
- The Federal Reserve study concluded that the source of the wealth gap was historic inequalities in income and opportunities, "a legacy of past economic deprivation" and it could not be fixed by only eliminating the income gap.

A Third Generation of Credit Discrimination- Reverse Redlining

- Beginning in the late 1990s and early 2000s, the subprime lending increased dramatically in the United States.
- Subprime financial products were intended to provide credit to individuals who did not qualify for prime loans.
- While subprime lending could serve a beneficial purpose, it was also subject to widespread abuse and predatory practices, including:
    - High interest rates and fees
    - Flipping and equity stripping
    - High-pressure sales and advertising tactics
    - Prepayment penalties
    - Balloon payments
    - Fraud

Reverse Redlining

- African American areas were frequently targeted for subprime and often predatory, mortgage loans – a practice know as reverse redlining.
- Residential segregation combined with lack of access to credit from mainstream financial institutions created market conditions favorable to targeting African-American areas for subprime and predatory loans.
- The market failure resulted in a credit vacuum in African American neighborhoods allowing lenders to aggressively market and exploit such areas with predatory loan products.

Unfair or Predatory Loan products

Targeting African American areas

Reverse redlining

Reverse Redlining

- HUD study found that 51% of refinance loans in African American areas were subprime; the respective figure for white areas was only 9%.
- In 2006, African American families earning more than $200,000 were more likely to get a subprime loan than a white family making $30,000 a year.
- Another study found that even after controlling for underwriting variables, African American borrowers were up to 34.3% more likely than whites to receive a higher rate subprime mortgage during the subprime boom.

Subprime Mortgage Crisis

- Targeting of minorities for unfavorable subprime products had serious repercussions with the collapse of the financial market in 2008, including:
    1. increased debt;
    2. lost equity;
    3. increased foreclosures; and
    4. neighborhood devaluation.
- Overall, about 240,020 African Americans lost their homes to foreclosure between 2005 and 2008.
- From 2005-2009, the net worth of African-American households declined by 53% while white households declined by 16%.

Post-Subprime Mortgage Crisis

- African-American homeownership rate reached a 50-year low in Q2-2019 – 40.6%, down 9.1% from its high in Q2-2004 – 49.7%.
  - Tightening of credit standards, i.e., FICO, DTI, etc.
  - Redlining
  - Contract lending
  - Discrimination
- Disproportionate impact of COVID-19 on minorities and minority communities.
  - Infection rates
  - Unemployment rates
  - Small business closures
  - Evictions/foreclosures

Impact of Racial Homeownership Gap on Wealth Accumulation

A study of Survey of Income and Program Participation (SIPP) data collected in 2011 concluded that eliminating disparities in homeownership rates and returns would substantially reduce the racial wealth gap.

- **If racial disparities in homeownership rates were eliminated**, so that African Americans were as likely as white households to own their homes, median African American wealth would grow $32,113 and the wealth gap between African American and white households would shrink **31** percent.
- **If the return on homeownership was equalized,** so that Blacks saw the same financial gains, i.e. home equity, as whites as a result of being homeowners, median Black wealth would grow $17,113 and the wealth gap between Black and white households would shrink **16** percent.

Conclusion

- Overall, one of the primary explanations for the large racial wealth gap is historical and structural discrimination in credit markets.
- Such historical and structural discrimination has limited African-American wealth accumulation in at least two significant ways:
  1. It has limited African-American homeownership due lack of access to traditional sources of mortgage credit.
  2. It has increased the cost of achieving homeownership for African Americans due to increased reliance on non-traditional sources of credit.

Summary of Key Links for Adult Financial Education

Protecting Your Finances During the Coronavirus Pandemic:
www.consumerfinance.gov/coronavirus/

To order free, bulk copies of Bureau consumer brochures:
http://promotions.usa.gov/cfpbpubs.html

To sign up for the Financial Education Exchange and learn about ordering free bulk publications:
CFPB_FinEx@cfpb.gov

To sign up for the Financial Education Discussion Group:
linkedin.com/groups/CFPB-Financial-Education-Discussion-Group-5056623

CFPB Resources for Financial Educators webpage:
consumerfinance.gov/adult-financial-education